



HF 2117 – Student Loan Interest, Income Tax Deduction (LSB5656YH)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2117 expands the existing Iowa income tax deduction for student loan interest by removing the annual maximum deduction amount of \$2,500 and by removing a restriction that limits the availability of the deduction for taxpayers with higher adjusted gross income. The bill is retroactive to the beginning of tax year 2016.

Background

Iowa's existing income tax deduction for qualified student loan interest is achieved through coupling with the federal Internal Revenue Code (IRC). The IRC provides an annual maximum \$2,500 in student interest that may be deducted and also provides limitations on the deduction for higher income taxpayers. The high income limitation is in the form of a phase-out that begins at \$65,000 of federal adjusted gross income for single taxpayers (\$130,000 for married taxpayers) and ends at \$80,000/\$160,000. Above \$80,000/\$160,000, the deduction is not currently available for state or for federal tax purposes.

Assumptions

For tax year 2014, a total of 194,300 Iowa taxpayers claimed the student loan interest deduction and the average deduction was \$1,075. The bill expands the deduction to include student loan interest amounts that cannot currently be deducted. To estimate the revenue impact of the removal of current student loan interest deduction limits, the following facts and assumptions were utilized:

- Approximately 31,000 taxpayers claimed the maximum \$2,500 deduction for tax year 2014. It is assumed that the actual interest paid by those taxpayers exceeded \$2,500.
- Approximately 12,500 taxpayers had their maximum student reduction allowed for tax year 2014 limited through the phase-out process.
- Taxpayers with adjusted gross income above \$80,000/\$160,000 could not claim the student loan interest deduction for tax year 2014. The projection adjusts for an assumed 19,200 taxpayers that are currently not allowed any student loan interest deduction due to the adjusted gross income limitation.
- To adjust for the impact of higher education inflation on student debt levels, student interest payments are increased by 3.1% to elevate tax year 2014 data to tax year 2016 projections. For tax years beyond 2016, the projected student loan interest deduction is adjusted for inflation, economic growth, and demographic changes.
- Based on the assumptions above, Iowa taxpayers with student loan interest fall into three benefit categories in this bill:
 - Taxpayers currently utilizing the state tax deduction but not impacted by the changes in the bill since their interest payments are fully deductible under current law = 150,800 taxpayers.
 - Taxpayers currently utilizing the state tax deduction and impacted by the changes in the bill = 43,500 taxpayers with an average annual tax reduction of \$76.
 - Taxpayers with student debt payments that are not able to deduct any of the interest due to the federal income threshold = 19,200 taxpayers with an average annual tax reduction of \$136.

- Based on the assumptions above, the bill results in the following projected income tax reductions:
 - Tax Year 2016 = \$5.7 million
 - Tax Year 2017 = \$6.2 million
 - Tax Year 2018 = \$6.9 million
- Iowa tax law changes that impact the calculation of Iowa taxable income also impact the calculation of the local option income surtax for schools. Surtax impacts statewide equal 3.1% of projected General Fund impacts.

Fiscal Impact

Expansion of the current student loan interest deduction will reduce General Fund revenue by the following projected amounts:

- FY 2017 = \$5.9 million
- FY 2018 = \$6.2 million
- FY 2019 = \$6.9 million

The revenue reduction continues in future fiscal years, increasing with the growth in higher education costs and demographic changes. In addition to the negative impact on General Fund revenue, the changes will also reduce the local option income surtax for schools by approximately \$200,000 each year.

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
